S. H. KRESS & COMPANY

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Annual Report · 1943

CORP. FILE

February 18, 1944

To Employes and Stockholders:

The financial statements of your company for the year 1943 as certified by Messrs. Price, Waterhouse & Co., public accountants, are submitted herewith.

In 1943 the sales of your company increased $7,063,381, or 6% to a new high of $124,021,970. After providing for Federal income and excess profits taxes totaling $11,600,000 and for post-war adjustments in the amount of $250,000, the net profit for 1943 was $5,518,585, which is 1.4% higher than for 1942. This amount represents $2.16 per share on the outstanding common stock after payment of dividends on the outstanding special preferred stock, as compared with $2.13 per share in 1942.

Dividends of $1.60 per share were paid on the common stock in 1943, as in 1942. The usual dividends of 60¢ per share were also paid on the preferred stock. Of the 6,661 holders of our common stock on December 31, 1943, 850 were employes and 157 were former employes now serving in the armed services.

During the year an aggregate amount of $14,354,691 was charged against the year's operations for Federal, State, and Municipal taxes, representing 11.6¢ out of every dollar of sales. As a collecting agency for various taxing authorities your company also collected from customers and employes $2,571,928 in excise and sales taxes and $1,084,542 in withholding and social security taxes. Federal income and excess profits taxes alone for 1943 exceed $4.93 per share of outstanding common stock. In 1943 we filed approximately 157,000 Federal, State, and Municipal reports, an increase of 32% over 1942 at a high cost of time and labor.

In 1943 we paid $18,171,426, or 14.7¢ out of each dollar of sales, to officers and employes as salaries and wages; of this amount, $284,466 was paid to fifteen officers and directors. Your company also contributed $216,306 in payment of its share of the cost of the employes' retirement pension plan, in which all employes earning a salary of $2,000 or more per year are eligible to participate, subject to age and length of service requirements. This benefit to our employes is in addition to group life

S.H.Kress & Co.

5-10 and 25 Cent Stores

Buying - Administrative Office

114 Fifth Avenue

New York 11, N.Y.

Address correspondence to the Company only and in your reply refer to Division V.P.-T.

Cable Address, Kressco, New York
Codes Used:
Acme Code
Bentley's Code

February 1, 1944

Cleveland Public Library
325 Superior Ave., N.E.
Cleveland, Ohio

Gentlemen:

For our future reference in mailing, if a unit key number plan applies to your mailing address please enter in space provided below and return this letter to us.

Yours truly,

S. H. KRESS & CO.

U.S. Post Office unit number

applying to our address is_____.

insurance which the company provides at no expense to the employes, and also to social security benefits available to all employes. For the year 1943, we propose to pay $126,824 to store employes, other than managers, as additional compensation based on length of service. This payment, as for 1941 and 1942, will be made in War Savings Bonds and Stamps.

At the end of 1943 we operated 244 stores located in 29 States and in the Territory of Hawaii. Our store at Laurel, Miss., which was closed by fire in 1942, was reopened early in the year, while our store at Pine Bluff, Ark., was closed because of fire in October. It is expected that the store at Pine Bluff, Ark., and the store at Little Rock, Ark., which was damaged by fire in 1942, will both be reopened during the early part of 1944. Due to wartime restrictions we were unable to open any new stores or to improve existing buildings and equipment during the year. We are planning for such expansion and improvement so that there will be no delay when the present restrictions are removed.

The decline in inventories from the preceding year reflects the difficulty of acquiring stocks of merchandise of outstanding value to meet the demands of our customers. While substitute merchandise is necessarily being sold and is included in our inventories, we have made every effort to obtain sound merchandise which will be salable after the termination of the war.

The increase in the amount of cash and securities on hand represents funds accumulated for the payment of Federal income and excess profits taxes, for store construction and rehabilitation work deferred during 1942 and 1943 because of wartime restrictions and for the normal expansion of the business.

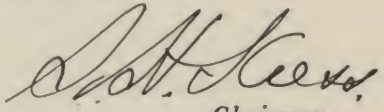
As of the date of this report 1,235, or approximately 56% of the company's male employes, have entered the armed services of our country; 317 of our men are commissioned or non-commissioned officers. In addition, 76 of our female employes are also in military service. We who are on the home front recognize our obligations to them and are planning for their future so that they will be qualified to resume, without handicap, their places in our organization.

The loss of so many of our employes has created many problems and difficulties in the operation of our business. These handicaps have placed additional responsibilities on the employes who have remained, and we wish to express our appreciation for their faithful cooperation which has made it possible for us to maintain our high standards and to continue to serve the public as effectively as in past years.

In 1943 your company cooperated to the fullest extent with the U. S. Treasury Department in promoting the sale of War Savings Bonds and Stamps. The facilities of all stores were made available for this purpose and we shall continue to do everything within our power to assist in this work. Our employes have cooperated loyally in this patriotic enterprise and have added substantially to their own purchases of stamps and bonds.

Your management realizes that there will be many difficult problems to face in 1944 and has every confidence that these problems can and will be solved by the intense and loyal cooperation of the company's many employes and manufacturers and suppliers.

By order of the Board of Directors,



Chairman

AUDITORS' REPORT

To the Stockholders of S. H. Kress & Company:

We have made an examination of the balance sheet of S. H. Kress & Company as of December 31, 1943 and of the related statement of profit and loss and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included such tests of the accounting records and other supporting evidence and such other procedures as we considered necessary.

In our opinion, the accompanying balance sheet and related statement of profit and loss and surplus present fairly the position of S. H. Kress & Company at December 31, 1943 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE, WATERHOUSE & CO.

56 Pine Street,
New York,
February 18, 1944.

S. H. KRESS & COMPANY

Statement of Profit and Loss and Surplus

	Year Ending Dec. 31, 1943	1942
GROSS SALES	$124,021,970	$116,958,589
Deduct:		
Cost of merchandise sold and operating expenses (including amounts charged as rental of owned properties and leasehold improvements)	$106,048,852	$100,124,779
Provision for depreciation and amortization	2,259,416	2,318,505
Provision for employes' retirement pension trust plan	216,306	224,560
Provision for post-war adjustments	250,000	—
Loss on sale of properties	80,556	105,805
	$108,855,130	$102,773,649
	$ 15,166,840	$ 14,184,940
Add:		
Amounts charged as rental of owned properties and leasehold improvements (included in expenses above)	$ 1,492,694	$ 1,473,374
Rentals received from other tenants	373,798	252,966
Miscellaneous other income	78,242	34,670
Profit on sales of U. S. Government securities	7,011	9,912
	$ 1,951,745	$ 1,770,922
	$ 17,118,585	$ 15,955,862
Deduct:		
Provision for Federal income taxes	$ 2,600,000	$ 2,507,000
Provision for Federal excess profits taxes	$ 10,000,000	$ 8,900,000
Less—Estimated post-war refund credit	1,000,000	890,000
	$ 9,000,000	$ 8,010,000
Total Federal taxes based on income	$ 11,600,000	$ 10,517,000
NET PROFIT FOR THE YEAR	$ 5,518,585	$ 5,438,862
EARNED SURPLUS AT BEGINNING OF YEAR	18,173,061	16,929,252
	$ 23,691,646	$ 22,368,114
Dividends paid:		
On common stock ($1.60 per share)	$ 3,762,678	$ 3,762,678
On special preferred stock (60¢ per share)	432,378	432,375
	$ 4,195,056	$ 4,195,053
EARNED SURPLUS AT END OF YEAR	$ 19,496,590	$ 18,173,061

S. H. KRESS & COMPANY

ASSETS

	December 31, 1943	December 31, 1942
CURRENT ASSETS:		
Cash	$ 11,308,759	$ 8,464,252
U. S. Government securities, at amortized cost (market value at Dec. 31, 1943—$14,392,000)	14,385,575	9,506,212
Sundry debtors	259,517	307,350
Inventories of merchandise, including merchandise in transit, at cost or market, whichever is lower	20,341,355	21,680,280
Total current assets	$ 46,295,206	$ 39,958,094
OTHER ASSETS:		
Loans and advances to landlords, deposit in escrow and miscellaneous notes receivable	$ 429,065	$ 418,021
Post-war refund of excess profits tax (estimated)	1,890,000	890,000
Prepaid insurance premiums, taxes, rents, deferred rental expenses, etc.	270,723	604,437
Total other assets	$ 2,589,788	$ 1,912,458
CAPITAL ASSETS:		
Fixtures and equipment, at cost	$ 15,226,165	$ 15,344,594
Less—Reserve for depreciation	10,505,066	9,899,709
	$ 4,721,099	$ 5,444,885
Leasehold improvements, at cost	$ 16,847,723	$ 16,959,294
Less—Reserve for amortization	7,612,028	6,975,876
	$ 9,235,695	$ 9,983,418
Land and buildings owned in fee, at cost in cash and capital stock	$ 38,532,591	$ 38,623,481
Less—Reserve for depreciation	7,508,729	6,777,216
	$ 31,023,862	$ 31,846,265
Goodwill, leaseholds, etc.	$ 1	$ 1
Total capital assets	$ 44,980,657	$ 47,274,569
	$ 93,865,651	$ 89,145,121

Comparative Balance Sheet

LIABILITIES

	December 31, 1943	1942
CURRENT LIABILITIES:		
Accounts payable—trade creditors	$ 1,228,570	$ 947,013
Accounts payable—merchandise in transit	1,210,483	765,840
Accrued salaries, expenses, taxes, etc., including taxes withheld	2,841,699	2,019,053
Provision for Federal income and excess profits taxes	13,238,243	11,640,088
Total current liabilities	$ 18,518,995	$ 15,371,994
RESERVE FOR POST-WAR ADJUSTMENTS	$ 250,000	$ —
CAPITAL STOCK AND EARNED SURPLUS:		
Capital stock:		
Special preferred stock—6% cumulative— Authorized—1,000,000 shares of $10 each—$10,000,000 Issued—911,976-6/40 shares	$ 9,119,761	$ 9,119,761
Common stock without par value— Authorized—2,678,787 shares Issued—2,357,574 shares	48,511,253	48,511,253
Total capital stock	$ 57,631,014	$ 57,631,014
(Common stock reserved for sale to employes—68,434 shares)		
Earned surplus	$ 19,496,590	$ 18,173,061
Less—Cost of shares of capital stock reacquired and held in treasury:		
Special preferred stock—191,114 shares $1,912,431		
Common stock—5,900 shares 118,517	2,030,948	2,030,948
	$ 17,465,642	$ 16,142,113
Total capital stock and earned surplus	$ 75,096,656	$ 73,773,127
	$ 93,865,651	$ 89,145,121

S. H. KRESS & COMPANY

OFFICERS

S. H. KRESS - - - - - - *Chairman of the Board*
R. H. KRESS - - - - - - - - - *President*
W. L. BAKER - - - - - - - - - *Vice-President*
O. N. BIRKLAND - - - - - - - *Vice-President*
H. S. DAVIS - - - - - - - - - *Vice-President*
W. H. LOLLAR - - - - - - - *Vice-President*
O. A. TAYLOR - - - - - - - - *Vice-President*
H. F. CUNNINGHAM - - - - - - - *Secretary*
C. M. FUNK - - - - - - - - - *Treasurer*
W. M. WEAVER - - - - - *Assistant Treasurer*
W. F. DEMPSEY - - - - - - - *Assistant Secretary*
P. W. DENZIN - - - - - *Assistant Secretary*
J. S. SMITH - - - - - - *Assistant Secretary*
W. G. FOLK - - - *Assistant Secretary and Treasurer*

DIRECTORS

S. H. KRESS — W. L. BAKER — O. N. BIRKLAND
R. H. KRESS — O. A. TAYLOR — H. S. DAVIS
H. S. BOWERS — J. M. HANCOCK — W. H. LOLLAR
M. A. HODGES — H. A. BARGEON

Transfer Agent: LAWYERS TRUST COMPANY, NEW YORK, N. Y.

Registrar: CHEMICAL BANK & TRUST COMPANY, NEW YORK, N. Y.

Buying-Administrative Offices
114 FIFTH AVENUE, NEW YORK 11, N. Y.